NATIONAL DEVELOPMENT STRATEGY: THE KEY GROWTH INSTITUTION

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Abstract. Economic growth is almost invariably the outcome of a national development strategy. Effective economic development occurs historically when a nation is strong, and the different social classes are able to cooperate and formulate an effective strategy to promote growth and face international competition. A national development strategy is essentially an institution or a cluster of institutions which stimulates capital accumulation and technical progress. It follows a discussion of the main characteristics of such strategies. The paper closes with an analysis of the conflicts or tensions involved in national development strategies.

Keywords: **strategy** **development** **economic growth** **hegemony**

The past two centuries' experience shows that when an economy is enjoying full growth it is a sign that politicians, business entrepreneurs, bureaucrats and workers are operating within the framework of a loose but concerted strategy. When an economy starts to grow slowly, or even stagnates, it is a sign that it lacks a national development or competition strategy. A nation' strength is expressed in its commitment to the great political objectives of contemporary societies — security, freedom, economic development, social justice and protection of the environment — and in its ability to gather together and formulate strategies to achieve these objectives. None can be achieved solely on the basis of market forces. Economic development can be facilitated by free markets that foster efficient allocation of factors of production, but, historically, is the outcome of a deliberate approach of raising productivity and living standards adopted by a nation using the state as its principal institutional instrument of collective action and markets as the main institutional environment in which growth takes place. It is the result of a national competition strategy that has as main executors the business entrepreneurs, as practical means, capital accumulation and the incorporation of knowledge into production, and the government or administration as the group leading the state that assumes the role of

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mediating interests and of defining policies that have been agreed by the leading social groups that constitute the nation.

In modern democracies, the state is the nation's instrument of collective action, and the administration or government, the body of people – of elected officials and high-ranking bureaucrats – who rules it in name of the citizens.[1] The strategic nature of economic development arises from the need and opportunity of a nation to organize efforts in order to raise living standards, and from the high correlation between economic growth and the achievement of other major political objectives. Even though development may, in the short-run, take place at the expense of social justice and environmental protection, in the medium term the positive correlation is certain among other causes, because social justice and environment defenders will be empowered by growth. The importance of a national growth strategy is also due to the highly competitive nature of capitalism. Today, within the framework of globalization, where commercial and technological rivalry among nations holds sway over the entire logic of international relations, the need for a national development or competition strategy becomes evident just by reading the newspapers. Domestic news coming from each country shows that a large portion of their politicians' efforts and struggles have been centered on how to best promote the country's economic growth. On the economic relations front, in regard to trade mainly, but also connected with technological and financial relations, nations experience massive competition, with each government defending the interests of its national business enterprises. They also cooperate, as the existence of the UN demonstrates, but, in general, competition prevails over cooperation.

I will argue in this paper that economic growth implies a national strategy, which, in turn, assumes the existence of a nation whose constituent social groups — politicians, bureaucrats, business entrepreneurs and workers —despite their internal conflicts, have been able to back a national agreement when it comes to competing internationally. When

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[1] In English the term 'government' is often used synonymous with state, while 'administration' denotes what in Europe and Latin America we call government ('governo', 'gobierno', 'gouvernement'). I will use state, not government, to mean the organization that defines and enforces the law; administration or government is formed by the group of politicians and senior officials that direct the state; nation-states will be here synonyms of countries or national state; 'states', in the plural, is often used as synonym of nation-states or countries, but I will avoid that. Note also that I distinguish nation and state from nation-state: a nation or a national society plus a state and a territory form a nation-state. States, in the plural, is often used as synonym of nation-states or countries.

society is viewed as ‘civil society’ civil liberties are the focal point; when it is viewed as a ‘nation’, economic growth is the central concern. When a nation is able to agree on a national development strategy, this is a signal that this nation is strong and lively. In contrast, “when a nation no longer defines a historical horizon to be pursued with courage and hope, it enters the unhappy state of awareness that Hegel referred to: the inability to take a harmonic stance before life.” (Comparato, 2005: A3).

This paper is divided in five sections. The first one defines a national development strategy; the second emphasizes the institutional character of a national development strategy and how it is more effective in promoting capital accumulation and technical progress than just guaranteeing property rights and contracts; the third examines the strategies that central or developed countries, which were never dependent, adopted to grow; the fourth examines peripheral countries’; and the fifth deals with the stresses or contradictions these strategies involve.

Definition and common traits

What is a national strategy? This is not an easily answered question, as national strategies vary widely across time and space. Yet, a historical definition attempting to capture its main characteristics may be offered. A national development strategy is a concerted economic action that has the nation as its collective actor, the state and its political leadership as their basic instruments, and economic growth as its objective; it is a group of diagnostics and objectives, and of laws and policies that guide decision-making by economic actors, principally business entrepreneurs and high officials, so reducing their uncertainty; it is an informal and loose agreement among social groups on how to compete internationally, that is not incompatible with domestic conflicts, but assumes collective action in relation to foreign competitors; it is a nationalist institution that does not preclude international cooperation, but gives priority to the interests of national labor, knowledge and capital.[2]

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[2] Nationalism is here understood as the ideology that legitimizes the formation and consolidation of the nation-state. Citizens will be nationalists if they have no doubt that their governments are supposed to protect national capital, labor, and knowledge. According to this definition, all developed societies are nationalists – so nationalists that they can dispense the adjective and use it pejoratively, generally together with ‘populism’, to indicate political movements from the right or the left that oppose hegemonic global views.

Since the capitalist world is organized in families, private organizations and nation-states that compete and cooperate among themselves, a national development strategy is the form that each state chooses to perform its expected role. Cohesive and autonomous nations will have stronger national development strategies than divided and dependent ones. The cohesiveness of a nation tends to increase with economic growth, but the process is far from being monotonic: gradual deterioration followed by crises is common, so that nations gain and loose cohesiveness, their national development strategies are sometimes clear, sometimes blurred.

National development strategies must not be confused with economic planning or even with a national project, unless flexible, broad concepts of planning and project are implied. In most cases of successful national development strategies there has being some sort of planning, particularly in the early stages, for the establishment of the economic infrastructure and of heavy industry. Later on, the market coordination, despite its limitations, becomes a must, and general planning will be indicative. Plans will then tend to become more specific – to deal with given industries that are viewed in the moment as strategic. The national strategy persists, but particularly in global capitalism it will be rather a national competition strategy. It must always consider the reactions of 'adversaries', which will be either the other national competitors, or any new facts that demand a policy change. A national development strategy is the result of a collective decision making process. It is, therefore, a means to manage the national economy, to pursue alternatives capable of steering it competitively towards development. As firms plan their activities strategically, so nation-states outline national development strategies, led by the government, and with the involvement of business entrepreneurs, bureaucrats and workers.

Herbert e Peter Simon (1979: 42) identified strategy with program, and regarded the latter as a means by which economic actors with incomplete information and limited rationality appraise alternatives and make choices, instead of permanently 'optimizing', as assumed by neoclassical economics. Based on the analysis of a chess match, they tell that "a program or strategy is a series of decisions carried out in a well-defined manner that enables vast economy in terms of memory and the assessment of alternatives. On defining a strategy, the player must take three principles into consideration: (1) the attacker must consider 'strong' games only (like checks on the opposite King)...; (2) all alternatives available to the opponent must be explored...; (3) if any of the games that the attacker is considering, regardless of how strong it may be, allows the opponent make moves in response, the attack move is abandoned for lack of promise". It is no different with national strategies. Strategists must begin by diagnosing the situation, and then search for alternatives, always bearing in mind the fact that they cannot pursue 'every' alternative, but, within the framework of a program, only those that appear more promising or satisfactory. Strategists are under no illusion as to optimization, but know that they have limited time to make a decision, to choose under uncertainty. In order to implement the eventually defined strategy or program, those in charge of it will use all means available: they will write laws, adopt economic policies, they will define public investment plans and the national budget, and all sorts of other institutions; they will try to make the most of the markets' resources, but not hesitating to intervene as needed.

All national development strategies have certain traits in common, despite an enormous variety among countries, principally among central and peripheral countries. These common traits in many ways are related to the fact that economic development results not only of increase in productivity of the same products, but also of the launching of new products with higher per capita value added. Productivity gains tend to be higher in the second case because they generally are more technology intensive and require man power more specialized and better paid. If economic growth may be understood with increase in income per capita, it may also be defined by increase in value-added per capita. Thus, when the first industrial countries transferred part of their labor force from agriculture to manufacture, while importing agricultural commodities from developing countries, this process was taking place. In that type, for the rich countries, industrialization was the way to increase national productivity. In the second part of the twentieth century, however, growth in those same countries occurs with deindustrialization, as China and other developing countries take charge of the production of relatively low per capita value-added manufactures and they transfer their highly educated labor force existing to more technology intensive services.[3]

At all development strategies, investment must be financed. The first common trait to early national strategies — those that take place in the transition from a pre-capitalist to a

[3] Unemployment is only high in Europe, but for other reasons. Japan and United States are full employment economies, and the later remains an immigration economy.

capitalist system — is a major increase in the capital accumulation rate with the use of domestic savings. This is what Marx referred to as primitive accumulation. Lewis (1954) model gave a rationale for it. To this end, the nations that are able to form nation-states will use a combination of forced savings mechanisms with policies assuring high profit rates to entrepreneurs disposed to invest. The main agents of the accumulation process are business entrepreneurs, but in the first stages of development, the state plays a strategic role in promoting 'forced savings' either through social security funds, or through taxes on primary goods exporters,[4] or through investment into monopolist state-owned enterprises profiting of large rents originated from natural resources (like oil) or just from monopoly (like utilities). In many countries investments in the later industries have been self-financed.

A second trait of national development strategies is informal planning and industrial policy. Liberals will reject both, but all countries used them, particularly in the first stages of growth. National development strategies involve channeling idle funds or funds originated from forced savings towards public investment or to business firms for investment by means of incentives or subsidies. In almost every country, the state played an important role in the creation of the basic infrastructure of the economy and in increasing the rate of capital accumulation from around 5 to more than 20% of GDP. Yet, as the economy's complexity and diversity increase, forced savings cease to be required while industrial looses relative significance as markets assume a larger role in resource allocation. As shown by Gerschenkron (1962), in the early stages of growth of backward central countries, the state played a decisive role in causing capital accumulation and growth. Yet, after some time, as the national economies gain in complexity, markets assume the coordinating role. In the transition from one to the other mode of development, a crisis will usually turn out, after which the nation will have to devise a new national development strategy in which the role of markets and entrepreneurs increase. In any circumstance, the state will conserve its capacity to achieve public savings that will finance the always required and strategic public investments. In this second stage, national growth strategies will develop a national financial system able to finance investment and technological progress. It will also continue to get involved in industrial

[4] In the 1950s, in Brazil, taxes were disguised under the form of multiple exchange rates. Coffee exporters, however, soon understood that this was a form of transferring income from them to industrialists, and called the system, 'exchange rate confiscation'.

policy despite conventional orthodoxy condemnation of it. It could not be different, since globalization made the nation-states more interdependent but not less relevant as is usual to hear; on the contrary, made them more strategic since globalization is characterized by an acute competition among nation states through their business enterprises.[5]

On the other hand, funding can be a two-edged sword. Foreign finance is particularly problematic for developing countries because their debts are not in their own money but in some hard currency. Like a firm, a country may easily get into more debt than might be wise; it may, in particular, become indebted at interest rates higher than its growth rate. In this case, it risks severe crises, as those we saw striking developing countries, mainly in Latin America and Africa, since the 1970s. Thus, a third common feature to development strategies is that they must count with domestic resources. As Barbosa Lima Sobrinho (1973) well puts it in the title of his book, 'capital is made at home.' That is, in practice, development is funded with domestic savings, be it from self-financing, state financing or bank financing. In virtually all cases, this was the main form of financing. At certain times, when a country was growing at an extraordinary pace and interest rates were high, such a country would have resorted substantially for foreign loans, as was the case of the United States at certain points of the 19th Century. However, incurring current account deficits, that is, growing with foreign savings was something to be done in a limited way because countries were aware of the hazards such financing entailed. As the experience of the dynamic Asian countries showed, the fastest-growing countries tend to grow not with foreign savings, but with foreign negative savings: most of the time they report current account surpluses instead of deficits.

The secondary role played by foreign savings in national development strategies is related to a fourth common trait to national growth strategy of developing or backward countries: they must have competitive, relatively depreciated exchange rates. If a country expects to catch up, it must be able to transfer manpower to higher per capita value added industries, protecting such industries from the infant industry problem and particularly from the Dutch disease. Infant industry protection is the classical solution, but the more general one is managing the exchange rate to avoid appreciation. All national development strategies, be they at the center or the periphery, were initially protectionist. First, because, given the infant industry argument, the new entrants hardly would be capable of competing without

[5] See Maria Gritsch (2005) for a survey of the theme.

such protection. This was true even in England, who protected its wool textile industry strongly for several centuries, in addition to bringing about the demise of India's competitive craftsmen industry. Secondly because in most cases an industry can only become competitive if it forms an industrial cluster or pole in which positive externalities increase the overall productivity level and enable the high profits required by the businessmen who are investing. Thirdly, because most developing countries suffered in several degrees from the 'Dutch disease': disposing of cheap and abundant resources, they can use them to export goods with low per capita value added paying low wages, but the resulting exchange rate that equilibrates current accounts tends to be appreciated in relation to the one required by industries with higher per capita value added to which the country must transfer labor to grow.

In order to cope with such disease and to be competitive the country is supposed to manage the exchange rate. For long that was done indirectly through complex tariff protection and export subsidy systems, as all countries beginning industrialization did. The resulting effective exchange rate – or exchange rates because they were multiple – was more depreciated than the nominal exchange rate.[6] Today, when such practices are not anymore compatible with the complexities of the industrial economies of developing countries, the exchange rate is being managed more directly and more market friendly through the imposition of export taxes on goods causing the disease, and through broad controls of capital inflows and increase in international reserves as the Asian dynamic countries do since World War II (Bresser-Pereira, 2007: ch. 4).[7] The relation between an appreciated exchange rate and the Dutch disease or with the adoption of the growth *cum* foreign savings strategy may be explained in theoretical terms. After a short phase of import substitution, growth will tend to be export led, and a competitive exchange rate compatible with the installation of higher per capita value added industries is crucial for this. Yet, developing countries, counting with abundant natural resources and/or with abundant cheap labor and attracting foreign capitals because of their higher profit and

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[6] Look that here 'nominal' is not opposite to 'real' (inflation controlled) but to 'effective' exchange rate (implicit after protection and export subsidies).

[7] The "Dutch disease" is consistent with the usual concept of equilibrium exchange rate: the one that intertemporally balances the current account. And it suggests an alternative growth concept of equilibrium exchange rate: the equilibrium exchange rate consistent with growth is the one that, given effective supply capacity, allows higher value added industries to be competitive internationally.

interest rates, will tend to have a relatively appreciated currency – a tendency that derives respectively of the Dutch disease and of the growth *cum* foreign savings strategy. Only by managing the exchange rate and avoiding it to appreciate the country will be able to have a real national growth strategy which is also a national competition strategy. An appreciated foreign exchange rate, compatible with the foreign savings and with the Dutch disease, will respectively foster consumption and imports and block higher per capita value added industries. In the case of foreign savings, the inflows of finance or of direct investment make the country look as if it is increasing its capital accumulation rate, but, in fact, it is artificially raising wages, consumption, and foreign debt, while substituting foreign for domestic savings. In turn, a relatively depreciated foreign exchange rate encourages savings, investment and exports, and allows for competitiveness in higher per capita value added industries. This is why only at times of great growth, when the expected profit rate is very high, current account deficits do not cause the substitution of foreign for domestic savings: the real wage increase will not go all to consumption, as a significant portion also reverts to investment. Thus, national development strategies rarely are successful if they include in their menu what 'conventional orthodoxy' presses developing countries to do: 'to grow with foreign savings'. If either the worst does not happen (balance of payment crises), or the second worst (financial fragility and the constraint to involve in confidence building toward creditor countries), an adverse outcome will be in force: a high rate of substitution of foreign for domestic savings as a consequence of an evaluated exchange rate. This will not happen only if the economy is already undergoing a fast growth process so that the capitalist and the professional middle class reduce its marginal propensity to consume.[8]

A managed and competitive exchange rate allows the transference of man power to higher per capita value added industries, provided that the country has the technological and managerial capacity to develop such industries. Thus, the fifth and last common trait of national development strategies is, on one hand, to develop human capital, is to promote public education, science and technology. All economic development theories put in education and technical progress a big emphasis, what is right because it is impossible to have growth without such inputs, but they are on the side of supply, while the exchange

[8] For the concept of conventional orthodoxy see Bresser-Pereira (2006); for the critique of the use of foreign savings to grow see Bresser-Pereira (2004), Bresser-Pereira and Nakano (2002), Bresser-Pereira and Gala (2007).

rate that fuels investments and the forced savings that initially finance them are on the demand side. What we normally observe is that tight spot lies on the demand side. Many developing countries have unused specialized labor including highly educated people that migrate to rich countries for lack of internal demand. In any circumstance, national development strategies will necessarily emphasize education and technical progress. In the case of science and technology, as it advances exponentially, the role of state agencies becomes increasingly strategic, but innovation lies in the hands of business entrepreneurs – be them the classical individual entrepreneur, or the collective, techno-bureaucratic or executive entrepreneur.

Last but not least, the sixth characteristic of national development strategy is to be implemented in the context of macroeconomic stability. The attempt to oppose growth to stability is essentially flawed, usually involving a false concept of macroeconomic stability, just limited to price stability. Real macroeconomic stability implies, additionally, intertemporal equilibrium of the fiscal accounts, of the foreign accounts, and a reasonable full employment, or, putting just in terms of prices, besides control of inflation, it involves a sound differential between the expected rate of profit and the interest rate, and a competitive and stable exchange rate that stimulate investment and keep aggregate demand strong. Only a Keynesian or Kaleckian approach to growth that considers the demand side of the economy makes sense. Economic growth is not achievable at the expenses of macroeconomic stability but has it as one of its conditions. The reason for that is not only because entrepreneurs will invest more in a stable economic environment but also because they are permanently looking for profits that may only come true if a reasonable full employment is assured. The macroeconomic stability that is on the interest of business enterprises is a dynamic one in which satisfactory profits and increasing wages and salaries guarantee an increasing demand for the goods and services that they offer in the markets at stable prices.

National development strategy as the key institution

I did not include reforms or institutions among the basic traits that national development strategies historically share. It was not because I am underestimating the role of institutions and institutional reform on the process of economic growth, but because a national development strategy is an institution: actually, it is the key institution in economic growth. In capitalist societies, where the modern nation-states rose as the central political actor and economic growth became a central political objective, national development strategies are an informal but central institution causing economic growth. It is the institution that creates and assures investment opportunities and organizes the competitive economic actions by business entrepreneurs, workers, the private professional middle-class and the state bureaucracy or civil service.

Since Douglas North (1990) wrote his book on institutions trying to make neoclassical economics broadly consistent with institutional analysis, and won a Nobel Prize, institutions became again fashionable. Classical, Marxist, German historicist, and American institutionalists had always attributed a central role to institutions, but neoclassical economics practically ignored them for around a century. When they were brought back to mainstream economics first by Coase and Williamsons, and, finally, in the area of development economics, by North, many hailed this as good news. Yet, this institutions' 'recovery' did not open the horizons of economic analysis nor turn it more realistic as it took a reductionist approach: growth would take place whenever institutions guarantee property rights and contracts. By saying that the new institutionalists were just repeating the old laissez faire or the new neo-liberal saying that economic growth will automatically be assured whenever society assures the well functioning of markets. Economic development is a historical phenomenon that turned reality with the capitalist revolution and rise of the modern nation-states. Thus, it is a capitalist phenomenon where the protection of capital – or of property rights and contracts – is an essential but not a sufficient condition. Entrepreneurs are not bureaucrats but risk-takers; they are interested in security, but they are much more interested in monopolist profits derived from innovation. Growth oriented institutions may sometimes not guarantee property rights and contracts, but offer excellent investment opportunities. In China, national and foreign firms are investing so much and the country is growing so extraordinarily not because Chinese institutions guarantee rights – they do not – but because there is national development strategy in that country that offers to real entrepreneurs extraordinary opportunities of realizing profits and expanding their enterprises.

A national development strategy is made up of a set of institutions defining the rule of the great game that is economic growth. Some are laws that should be relatively general and permanent, expressing basic values and objectives; others are policies that may be more specific and temporary, defining means. Several forms of planning, starting with the fiscal budget, and including business strategic planning, are an essential part of a national development strategy. The same is true of business and associative practices that lie beyond the scope of the state but still have normative power. All such instruments guide the actions of entrepreneurs, rentiers, politicians, state bureaucrats, middle classes, workers – all in one way or another involved in the growth process.

Marx regarded development as a process where institutions, which tend to change at a slower pace than economic and technological relationships, were eventually subjected to a revolutionary updating process. As a result, he viewed institutions as an obstacle rather than an incentive to development. During the 20th century, however, as nations learned how to implement national development strategies through institutions, they became an effective and positive tool. Marx, living in the times of the liberal not of the democratic state (which would only arise in the twentieth century) did not see the state as an instrument of democratic collective action but just of political domination. Even in his times, however, the state was already being the nations' main instrument for promoting economic growth. In the twentieth century, despite the neo-liberal attempt to diminish the economic role of the state, his active responsibility for advancing economic growth was eventually enhanced.

The forms of state intervention are not only cyclical, but change depending on the level of development of the world competitive system, and principally on the stage of economic growth of each individual country. In all circumstances, however, the state is only effective in this role when its administration is able to lead a national agreement around an economic development strategy that must be understood as an institution or a cluster of institutions: laws, policies, informal orientations, shared beliefs. The state itself, besides being an organization with monopoly of legitimate violence (Weber), is an institution: it is the constitutional matrix of the other formal institutions; it is the law system or the juridical order. When this complex institutional system gets dynamic, oriented to promote hard work, innovation and investment, we will be in the presence of a national development strategy. To guarantee property rights and contracts is only one of the institutional aspects and not necessarily the more important. Individual entrepreneurs and group of executive-entrepreneurs within large corporations are innovators, not non-active or rentier capitalists: they are motivated rather by profits and by personal achievement than by security.

Non-neoclassical economists attribute to institutions a major role without, for that, seeing markets as the original, the ‘default’ principle organizing society, and without using the concept of transaction costs to explain organizations and the state itself. They also do not regard intervention as a means to cause the economy to draw close to a mythical, ghostlike perfect competition market where transaction costs would not exist. If national development strategies do not suppose overarching planning experiences, except in the early moments of development, neither those responsible for the strategy will count with self-regulated markets capable of allocating resources with no need for state intervention. The neo-classical assumption that the market is the default form of production coordination, while organizations and institutions are second-best means of coordination that become necessary when transaction costs are too high, is alien to the reasoning of successful national development strategy’s practitioners. In order to start working in the drawing of a strategy, they do not part from a general equilibrium situation and abandon successively the assumptions that are not realistic, as neoclassical economists are supposed to do, but part from a mixed reality which will be the reality of the country involved. Equally alien is the statist assumption that the state should be able to manage or plan the entire economy. National development strategies are always pragmatic institutions that arise from social practice and, therefore, cannot be driven by ideological dogmatisms, whether being interventionist or neo-liberal. The market is an extraordinary institution for resources allocation, but, as Polanyi (1944) remarked, it is just one of the institutions existing in a given society, and it is intrinsically limited in its capacity to coordinate the economic system. Similar constraints limit state intervention, so that national development strategies imply supplementing market coordination with state coordination without ignoring the shortcomings involved in administrative action.

When we think in the causes behind economic growth, there is a reasonable consensus that the two direct causes are capital accumulation and technical progress. A national development strategy is the institution that is immediately behind these two forms of economic activity and can stimulate them. Others institutions that foster growth are part of the national strategy, but should be distinguished from the former because have a medium term impact on growth. Take, for instance, education. Among the institutions that national states have used to promote economic development, public education occupies a paramount place. Education is always an essential part of a national development strategy, but its results only materialize in the medium term. Another crucial institutional reform that is part of national development strategy is the reform of the state as an organization or an administration: in present times it is public management reform. The state does not just embody the rules of the game – it is also an organization formed of politicians, state bureaucrats and military. If the state plays such a strategic role in development, it is important that the state organization be effective and efficient, but, again, the outcomes of public management reform will be necessarily lengthened in time. In the short term, national development strategies promote capital accumulation and technical progress by achieving a dynamic macroeconomic stability which involves a competitive exchange rate, a clear differential between the expected profit rate and the market interest rate, wages and salaries increasing with productivity, sound fiscal policies, stable prices, and reasonable full employment. Additionally, it involves industrial policies stimulating or protecting high per capita value added industries.

Differently, however, from what happened in the 1950s, industrial policies and tariff protection are today, in the national development strategies, adopted by developing countries, less important than market friendly competent macroeconomic policies which necessarily involve a competitive exchange rate. In the 1950s, industry was infant and the assumption was that developing countries would not be able to compete in this area, but experience falsified such hypothesis. Second, national economies of middle income countries were at that time much less complex than they are today.

National development strategies involve the participation of different social classes in the nation. Thus, it implies class negotiations where government is supposed to play an intermediary role. At the same time the strategy must be able to provide more profits to business entrepreneurs, higher wages and salaries for the workers and the professional middle class – something that can only be achieved if growth or increase in productivity is taking place. If labor negotiations do not count with growth, they either turn into aggressive behavior among the classes or into loss of societal cohesiveness or anomy. The more democratic and economically advanced is a country, more attention to equality of opportunities and political freedom will be required from the strategy. In a developed country where social and democratic values are better entrenched, the social justice and the democratic constraints will be stronger than in developing countries, but in none they can be ignored. In other words, a national development strategy involves politics, and politics implies compromise. Strategists may always count on the rationality of economic agents, but no one has the monopoly of such rationality, nor is reasonable to expect from the several groups that make up society that informal negotiations do not take place and compromises are not agreed upon.

National strategies at the developed center

National development strategies will vary from moment to moment, and from country to country. Two countries that in the last 20 years experienced national development strategies – China and Ireland – could not be more different. National development strategies must be regarded in terms of broad phases that differ depending on whether the nation-state at hand is a central or peripheral country. A basic distinction is between center and periphery, in the classic tradition of the works of Prebisch and Furtado. For central countries that have not been colonies of other capitalist countries, there was no underdevelopment; at most, there was a lag in comparison to England, the first country to develop. Peripheral countries, in turn, subject to imperialist domination by great countries, still endure massive hegemonic pressure from these powers to adopt policies that ultimately may do them more harm than good. The fact that they have experimented underdevelopment (which makes their economies dual in addition to poor), and, mainly, the fact that they still experiment dependence (understood to mean the subordination of their elites to the center), strongly condition any development strategies they may conceive.

The great division between center and periphery occurs with the capitalist revolution. To quote Landes (1999: 195), "the industrial revolution fragmented the globe by dividing it into winners and losers." In some countries, particularly those in Western and Northern Europe, as well as a few former British colonies where the metropolis' population was replicated, capitalist development undergo three development phases or stages: primitive capital accumulation and formation of the nation-state or national revolution in the realm of an agrarian and merchant society; industrial revolution; and consolidated capitalist development. at peripheral countries, mainly in Latin America, the first phase is colonial: the mercantile agrarian or mineral economy is based on plantations and internally organized according to patriarchal patterns; this is followed, in the beginning of the nineteenth century, by formal national independence which does not change the dependent character of society; much later, in mid twentieth century, some countries profit from the crisis in the developed center to formulate national development strategies, and the industrial or capitalist revolution takes place in certain countries that, so, become medium income developing countries (Brazil and Mexico), while the others remain just poor countries (Haiti and Bolivia); after that, however, and particularly since the 1980s, medium income developing countries continue to grow but slowly, at a much smaller pace than the convergence to the levels of growth of rich countries would require, while dependency from the rich North remains a basic characteristic. In the case of Asia and Africa, political independence is just achieved after World War II. In Africa, most countries are not yet capable of devising a national development strategy and making their capitalist revolution: they remain just poor countries. The exception lies in a growing number of Asian countries that proved less dependent than Latin America, and, although departing from a lower level of growth, achieved national autonomy and development since the second quarter of the 20th century: these countries are growing fast in the framework of national development strategies.

Each stage has its priorities. At phase where the nation-state is formed and primitive accumulation occurs, the two core challenges national strategy faced, historically, are suggested by its very name. It was about forming a state capable of enforcing the law, assure order and defend or widen national boundaries. And it was about using non-market means to promote primitive accumulation, that is, to create the initial stock of capital under the control of the infant bourgeoisie so that it might profit by means of the exchange in the market and productively reinvest its earnings. English mercantilist monarchs, in particular, were very competent in their deployment of this strategy.[9] Imperialist exploitation, through the association of metropolitan powers with colonial elites, will play a decisive role in the development of countries such as England and the Netherlands. On the other hand, if the only purpose of the colonies is consumption by the aristocracy, as was the case in Spain and Portugal, the outcome will be disastrous, as the appreciated foreign exchange rate will prevent any productive activity. To quote Landes (1999: 173), "Spain became (or remained) poor because she had too much money". It is during this phase that 'world-system' is formed (Wallerstein, 1974). Since the time of the discoveries, European countries will for the first time establish a grand world economic system, where a division appears between those, at the center, that will develop and those, in the periphery, that will remain stagnant, subject to different degrees to the imperialist yoke, with no glimpse of a national development strategy.

In the second phase, industrial revolution, will mostly rely on strong protectionist strategies, even in the case of Britain, who only eliminated its protectionist barrier much after the industrial revolution. This phase will also require, as did the former, a foreign exchange rate that prevents early consumption and favors investment in the local industry, thereby complementing the tariffs protection. This phase will imply a marked proletarization process, as wage labor grows and is kept at subsistence level. It further requires legislation capable of protecting private property and contracts, within a context of increasing class struggle. In the third phase — consolidated capitalism, in the case of central countries —, tariffs protection is gradually reduced and human rights are slowly granted: political ones first, then social ones. Wages detach themselves from the subsistence level and grow with productivity, so as to constitute the demand that is essential to firms' increasing production. In this phase, the first and foremost national strategy is the implementation of a public education capable of endowing the society with cultural and technical principles that development needs. Farther along, the state's investment in technical progress and the university will be fundamental. Throughout the period, the state is clearly shoulder-to-shoulder with firms in their international activities, trying to increase their competitiveness in every possible way. The economist discourse, however, is increasingly liberal contradicting their governments' practice. There is logic behind this, however. The government' strategic intervention on behalf of firms is not something open for discussion — it is just done — and, therefore, not threatened or less threatened by neo-liberal preaching. This preaching, however, serves both the internal struggle to limit social spending and the tax burden so as not to squeeze profits, and the foreign struggle to neutralize the attempts of competing medium-development countries to develop their own industries. This is where the classical 'ladder kicking' strategy comes in, having been detected by Friedrich List (1846 [1999]) who was concerned with Germany's late development, in England's behavior in the first half of the nineteenth century, and recently analyzed by Ha-Joon Chang ([2002] 2004).

National strategies in developing countries

During the colonial phase, at peripheral countries within the framework of the world capitalist system, that establishes itself after the great navigations, there is no reason to

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[9] See Chang ([2002] 2004)**,** where the author lists a large number of interventions made by these monarchs, promoting original or primitive accumulation and England's industrialization.

speak of national development strategy. These are societies directly subordinated to imperial countries, divided into two paradigmatic situations: that of advanced pre-capitalistic societies like China and India just having contacts with Western nations through colonial trading posts, and that of Latin American countries, where an European colonizer becomes the dominant social and ethnic group, and a mercantilist-patriarchal system is established to produce, under the 'plantation' model, goods that demands soil and weather complementary to Europe's. A 'third case' – the populating colonies established in the Northeast of the United States – is actually a special form of growth at the developed center, since New England colonies were a sort of reproduction of the English society.[10] In the early 19th century, since the industrial revolution at the center, societies of the first type, which had remained independent so far, are reduced to direct imperial domination, while Latin-American societies, formed under the leadership of the Spanish or Portuguese, win their political independence. India and China experience grave decadency, while Latin America, that in fact remain quasi-colonies or dependent societies, fail to devise a national development strategy. Their abundant natural resources facilitate forms of the 'curse of natural resources' or the 'Dutch disease' that cause the evaluation of the local currencies and bloc the transference of man-power to higher per capita value added industries.

We can only speak of national development strategy since the 1930s, when the great depression creates an opportunity to begin or boost industrialization. The national revolution, which had began with formal independence, only then gets moving. Now the national revolution and the institution of a national development strategy coincide in time. In Brazil, in Mexico, and, at a lesser degree, in other Latin-American countries, a national-developmentalist strategy is drawn in an attempt to emulate and adapt the experience of late-development central countries, such as Germany and Japan. Fundamentally, the strategy involves protection of the domestic industry through the import substitution model. The use of multiple foreign exchange rates to transfer income from export agriculture and mining to industrial firms and to protect the later from foreign competition is also important to explain the extraordinary development that then occurs. Both measures neutralize the tendency to artificial appreciation of the local currency due to the Dutch disease. Countries also resort to several forms of planning and industrial policy to

[10] For these three patterns of colonization, see Prado Jr. (1945[1956]): chapter 1-3.

stimulate investment in higher per capita value added industries. Investment in public education and in science and technology are also essential, although more long term aspects of the strategy.

At first, these national development strategies used local resources to finance development. This was the right thing to be done since it avoided the appreciation of the local currency and the loss of competitiveness of local industries that is inevitable when capital inflows are bigger than the demand for hard currency. However, since the early 1970s, given the assumption that 'rich countries are supposed to transfer capital to capital poor countries', they increasingly resorted to foreign loans and to direct investment, while maintaining the protectionist strategy and preserving pessimism towards exports of manufactures that no longer made sense. These two mistakes lead to a great crisis in the early 1980s, which Latin-America countries have yet to overcome. This crisis plus the increased ideological pressure coming from the North – the neo-liberal wave – led these countries, since the late 1980s or the early 1990s, to fell back to the condition of quasi-colonies and be left without a national development strategy: their dependent elites accepted an imported growth strategy – conventional orthodoxy – which rather neutralizes than promotes economic development.

In contrast, some Asian countries that somehow remained subject to European imperialism until World War Two, gained autonomy at that moment.[11] Some of them, like Korea and Taiwan, underwent in the 1950s agrarian reform. At first they used an imports substitution strategy, but, whether because their natural resources were limited, or whether because their elites, being indigenous instead of transplanted from Europe, were better able to state their national interests, they changed to an export-led strategy as early as the 1960s, while keeping the state led strategy. Instead of substituting imports, they implement a strategy based on the exportation of manufactured goods, copying the Japanese strategy that had proved its effectiveness in promoting great development. Then begins in Asia what was termed the 'flying geese strategy', where countries acquired the conditions for development in successive waves: first was Japan, followed by Korea, Taiwan, Hong Kong and Singapore, then Malaysia, Thailand, Indonesia; in the 1980s, China, and, a bit

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[11] Japan was never a colony, and this was one of the reasons why it was the first Asian country to be part of the center. China also was not a formal colony but fell under foreign rule after the loss of

later, India begin to grow at an extraordinary pace. In all of these countries, the macroeconomic price – the exchange rate – was deliberately kept competitive and industrial policies were markedly active while tariff protection was gradually reduced. By practicing competent macroeconomic policies that kept state finances sound, limited finance with foreign savings, and that prevented the tendency to an over-evaluated currency that characterizes developing countries unable to get protected from the Dutch disease, they avoided the 1980s foreign indebtedness that paralyzed development in Latin America and kept their economies competitive and growing. The dynamic Asian countries, with their manufactured goods export-led strategy, had two crucial advantages over Latin-American countries: their market was not limited to overseas, and the efficiency criterion remained clear: only firms capable of exporting deserved support. This strategy endured a crisis in the early 1980s because the Asian dynamic countries also resorted to foreign finance in the 1970s, but their indebtedness levels were much lower, the crisis was soon overcome, and the countries resumed rapid growth.

At the second phase, state intervention gradually goes down. This was due, on one side, to the higher stage of growth, but, on the other, to the enormous pressure for neo-liberal reforms coming from the rich countries since the mid 1980s. Unlike Latin America, however, they made relatively small concessions. The foreign exchange rate, in particular, remained firmly under control, and they did not resort to foreign savings. Quite the opposite, in order to maintain a competitive foreign exchange rate, Asian countries resisted the pressure for admitting equity and credit capitals and reported increasing current account surpluses and international reserves. It is true that some of them bowed to pressures and fell into the 1997 crisis, but immediately depreciated their currencies and return to growth. Today, some of these Asian countries, like Korea and Taiwan, are already regarded as developed, while Latin-American, African, Middle-Eastern and Central-Asian countries remain indebted, dependent and accepting the advice of rich countries instead of devising national development strategies.

Tensions

The fact that development strategies share characteristics in common is not to say that development is a linear, harmonic process. Quite the opposite, it is marked by important

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the Opium War. India was a colony, and for that reason lost even more than China in the breakthroughs implicit at points of transition: technological breakthroughs, political breakthroughs. And it is also marked by fundamental tensions or contradictions, which are not opposed to development: they are just the means by which development takes place.

There is, first, a tension that in nature is essentially economic: the tension between supply and demand which is real, but equivocally manifests itself through the false contradiction between growth and stability. Aggregate supply and demand are always at odds. The most generic of all macroeconomic laws — Say's law — affirms the compatibility of supply and demand as supply creates demand through income. But ever since Keynes we have been aware that this is only true in the long run. In the short run, supply can often exceed demand, leading to unemployment; or demand may exceed supply and, once full employment is reached, inflation ensues. Maintaining the aggregate supply and demand equilibrium, therefore, is the great challenge macroeconomic policies face. The easy solution is to maintain greater supply and keep a 'comfortable' level of unemployment, so that inflationary pressures remain low; the difficult solution is to avoid inflation while keeping investment rates and employment levels high. In addition to the easy and the difficult solutions, there is also the irresponsible or populist one: to increase government expenditures to grow demand at the expense of inflation. A national development strategy always implies the application of historical-institutional economics to the analysis of development problems — the application of a pragmatic, developmental theory that steers clear out of both the conventional orthodoxy and economic populism of phony Keynesianism. Conventional wisdom, however, often puts development, which is assumed to be inflationary, at odds with 'monetarism', or the economic orthodoxy that would supposedly defend macroeconomic stability. This is another instance of senseless ideological reductionism. The primary obligation of a national development strategy is to assure macroeconomic stability. It is mistaken to argue that there is a contradiction between development and macroeconomic stability. Even if we reduce macroeconomic stability to price stability, the contradiction does not exist except in the very short run – this is what the Philips curve shows. In the slightly longer run term, controlling inflation only fosters development. As Ignácio Rangel (1963, 1985) puts it, high inflation rates for relatively long periods are usually a symptom of economic crisis, a perverse means by which the economy adapts to crisis.

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nineteenth century.

A second basic stress faced by national development strategies is the one among social classes. Not just between capital and labor, but also among middle-class professionals, capitalists and workers, and, within the capitalist class, between business entrepreneurs and rentiers. This stress is expressed in the distribution of income across profits, interest, wages and salaries. Development strategies may occasionally distribute income, that is, favor wages and lower salaries and profits of medium and small firms. A golden period of central capitalist development — the so-called 30 glorious years after World War Two — was characterized by a deliberate distributive effort. Welfare states were then formed. But strategies are most often concerned with the growth of profits and salaries than that with wages. Wages and salaries also increase as a result of the strategy, but do so with the profits, rather than in opposition thereto. It is increasingly important for development strategies to distinguish workers' wages from the professional middle-class' salaries, as the latter have grown substantially more than the former throughout most of the 20th century, inasmuch that capitalism became a professionals' capitalism or a knowledge capitalism in which the number of members of the professional middle-class, their incomes, and their prestige and power increased. On the other hand, we must distinguish profits from interest, as there are an increasing number of rentiers that live on the interest and dividends paid through financial markets. Ricardo distinguished profits from rent; today, it is important to distinguish profits from capital income. In both cases, however, rentiers pose an obstacle to development. A national development strategy is supposed to foster investment opportunities by opening room for profits achieved by active capitalists or business entrepreneurs, while curtailing the interest rate that is on the interest of rentiers or non-active capitalists. When income concentration favors rentiers, it is a clear sign that no national development strategy exists.

A central problem that national growth strategies face today is in relation to the conflict or the supposed conflict between business entrepreneurs and state bureaucrats. A national strategy is only in place when these two strategic classes are in agreement. Good reasons for accord rather than conflict are not lacking. Yet, it is not on the interests of local rentier-capitalists and international groups that agreement prevails. Thus, the ideological pressures coming from neo-liberals and conservatives say that state bureaucrats are only interested in increasing their power and salaries, in increasing state expenditures and taxes, instead of working in a coordinated way with business entrepreneurs and capitalists in the promotion of economic growth. On the other hand, the left is always protesting against a possible coalition of businessmen and capitalist. The fact, however, is that only such coalition, also including the middle classes and the workers, will allow for a national development strategy.

A third fundamental tension that marks development process is the one between developed countries and medium-development countries. There is no reason to speak of conflict with a third type of country — the poor — because they are not competitors. For centuries, central countries have ruthlessly exploited peripheral countries through imperialism, with no significant reaction by the exploited. Since World War Two, however, this kind of imperialism disappeared with the demise of colonial empires. Meanwhile, some poor countries achieved medium development and began to pose hard competition against rich countries, even on manufactured goods exports, using the advantage of their cheap labor. Rich countries reacted positively to this transferring labor from low per capita valued-added industries to high value-added services, and negatively to the developing new forms of imperialism that may also be called hegemonic domination, inasmuch as they did not imply colonization, but the ideological submission of local elites. As they defended their trade interests in all international fronts, hegemonic countries sought to disorganize the new economies that threatened with cheap labor, by exerting ideological pressure on them to adopt the growth with foreign savings strategy and other policies that stood against development. To this end, they used international agencies like the World Bank and the IMF, and took advantage of developing countries' weakness caused by the great foreign debt crisis of the 1980s to approve, at the World Trade Organization, the 'Uruguay round', which severely harmed developing countries. As Robert Wade (2003) argues, the policies rich countries adopted in their trade talks were less aimed at opening their own markets, which are already open, than at reducing developing countries' ability to put national development strategies into practice. But, as with other tensions, the conflict between rich and poor countries does not prevent cooperation. As there are win-win games among workers, techno-bureaucrats and business executives and entrepreneurs by means of increased productivity, there are also well-known greater-than-zero-sum games in foreign trade: the problems is that, since trade and more generally economic international relations remain strongly managed by national governments, negotiations are not easy and improbably even.

Conclusion

National development strategies therefore differ, depending on the development stage of the relevant country and on whether or not it faces imperial or hegemonic opposition from others. In an attempt at synthesis, I would say that, at the early development stages, the two main strategies countries adopt to develop are forced savings and protection of the infant industry; at later stages, they resort to dynamic macroeconomic policies that maintain the fiscal budget in long term balance, keep competitive the exchange rate, assure a clear differential between a satisfactory expected profit rate and a low interest rate, allow for wages and salaries to increase with productivity, and involves stable prices and reasonable full employment.

In the past the main ideological weapon adopted by hegemonic countries to neutralize such competitive strategies was the law of comparative foreign trade advantages. Around the 1970s, such counter-strategy got exhausted because many developing countries that had ignored it became NICs (newly industrializing countries) that exported competitively manufactured goods to rich countries. At this point, the second hegemonic strategy based, on one side, on the positive recommendation of growth with foreign savings and opening of capital accounts, and, on the other, on ignoring the Dutch disease, became dominant. These are central characteristics of conventional orthodoxy. Yet, its practical rejection by dynamic Asian countries, and the systematic criticism that in the last years this approach is receiving in Latin American, suggest that it is also close to exhaustion.

Economic development is relatively self-sustained, inasmuch as, in an environment of rapid technological change, firms have no choice but to reinvest their profits. It is, however, perennially subject to crises, low growth rates and eventual long-term stoppages, as was the case in Latin America since 1980. It speeds up at times, indicating the presence of a national development strategy; at others, it becomes quasi-stagnant, because the previous strategy has become exhausted and the country was unable to replace it. The challenge each nation faces in overcoming these difficult transition phases involves recovering national autonomy and societal cohesiveness; only in this way they will be able to have a national development strategy that creates the conditions for global competition and cooperation.

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